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No. 00-39

In The

Supreme Court of the United States

MAJOR LEAGUE BASEBALL PLAYERS ASSOCIATION,

Petitioner,

v.

CARDTOONS, L.C.,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Tenth Circuit

BRIEF AMICI CURIAE OF ETW CORP. AND IMG IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

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MARK S. LEE
Counsel of Record
MANATT, PHELPS & PHILLIPS, LLP
11355 West Olympic Boulevard
Los Angeles, CA 90064
(310) 312-4000
Counsel for Amici Curiae ETW Corp. and IMG

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PARTIES TO THIS AMICI CURIAE BRIEF

Neither ETW Corp. nor IMG have a parent corporation, and neither issues any stock to the public. *See* S.Ct. R. 29.6.

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BRIEF AMICI CURIAE IN SUPPORT OF PETITION FOR WRIT OF CERTIORARI

Amici Curiae ETW Corp. ("ETW") and International Merchandising Corporation d/b/a International Management Group ("IMG") join in the petition for writ of certiorari submitted by the Major League Baseball Players Association, and respectfully ask this Court to review the judgment of the United States Court of Appeals for the Tenth Circuit for the reasons described below.[1]

INTERESTS OF AMICI CURIAE

ETW is a corporation that has been assigned all trademarks, rights of publicity, and other intellectual property rights associated with the name and likeness of professional golfer Eldrick "Tiger" Woods. IMG represents a number of professional athletes in the fields of football, baseball, golf, and tennis, including Arnold Palmer, Derek Jeter, Chris Evert, Joe Montana and Monica Seles. Both ETW and IMG evaluate licensing proposals for the intellectual property rights they administer, and protect those rights from unauthorized exploitation by others. Further, ETW has had to defend claims that it violated the law by sending cease-and-desist letters to protect its rights.[2]

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[1] No person or entity other than these *amici curiae*, its members, or its counsel, have made a monetary contribution to the preparation or submission of this brief. *See* S.Ct. R. 37.6.

[2] Those claims were made, and rejected, in *Arnold Palmer, et al. v. Gotta Have It Golf Collectibles, Inc.*, Case No. 97-0978-Civ-Seitz, presently pending in the United States District Court of

The ruling of the Tenth Circuit Court of Appeals that is the subject of the present petition threatens to adversely impact ETW's, IMG's, and all intellectual property owners' ability to protect their property.

SUMMARY OF ARGUMENT

This Court should review the decision of the Tenth Circuit Court of Appeals herein for a number of reasons.

First, the Tenth Circuit's decision has created a widening circuit split. The Second Circuit has just become the fourth appellate court to render a decision that conflicts with the Tenth Circuit. *PrimeTime 24 Joint Venture v. National Broadcasting Company, Inc., et al.*, 2000 U.S. App. LEXIS 15916, *26 (July 7, 2000).

Second, the Tenth Circuit's decision incorrectly decides an important and recurring issue. Both legislative and judicial policies strongly favor settlement of disputes. Virtually every court except the Tenth Circuit herein, including by implication this Court, have recognized that settlement discussions are necessarily incident to and a part of litigation. Cease-and-desist letters initiate settlement discussions. The Tenth Circuit's decision thus chills judicially desirable speech by an unnecessarily restrictive

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the Southern District of Florida. The district court there on July 20, 2000, dismissed the claim under the *Noerr-Pennington* doctrine based on *McGuire Oil Co. v. Mapco, Inc.*, 958 F.2d 1552, 1558 (11th Cir. 1992). *McGuire Oil Co.* is one of the three circuit decisions which the Tenth Circuit rejected. See Petition for Certiorari submitted by the Major League Baseball Players Association on or about July 6, 2000 ("Petition") pp. 14-15.

interpretation of the *Noerr-Pennington* doctrine and the First Amendment right to petition.

Third, the Tenth Circuit's decision adversely impacts all intellectual property owners by creating potential liability for legally mandated speech. The Digital Millennium Copyright Act and other provisions of the Copyright Act, the Lanham Act, and long established case law all require intellectual property rights owners to send cease-and-desist letters to protect intellectual property rights. The Tenth Circuit decision forces intellectual property owners to risk either a loss of rights or the contingent liability of a lawsuit whenever they discover what they believe to be unauthorized uses.

Finally, the Tenth Circuit's decision threatens to place extraordinary burdens on the federal court system by encouraging intellectual property owners to file suit before they commence settlement discussions. These *amici curiae* estimate that if only 10% of the intellectual property disputes now resolved without litigation through the cease-and-desist letter process instead commenced with litigation, there would be a 10 fold increase in the number of federal intellectual property suits filed, a number equal to about one-third of total federal civil filings. No legal, social, or judicial purpose is served by such a consequence.



ARGUMENT

I. THE TENTH CIRCUIT'S DECISION HAS CREATED A WIDENING CIRCUIT SPLIT

The Petition for Certiorari herein noted that three appellate courts have rendered decisions that conflict with the Tenth Circuit's decision in *Cardtoons, LC v. Major League Baseball Players Association*, 208 F.3d 885 (10th Cir. 2000). Petition, pp. 14-15.

A fourth circuit has now issued a ruling that also conflicts with the Tenth Circuit's decision. *PrimeTime 24 Joint Venture v. National Broadcasting Company, Inc., et al.*, 2000 U.S. App. LEXIS 15916 at *24 (2d Cir. July 7, 2000), notes that "courts have extended *Noerr-Pennington* to encompass concerted efforts incident to litigation, such as pre-litigation 'threat letters,' and settlement offers," (*internal citations omitted*), and adopts that rule as the law of the Second Circuit. *Id.* This latest holding underscores the widespread and important nature of the inter-circuit conflict created by the Tenth Circuit's decision.

II. THE TENTH CIRCUIT'S DECISION INCORRECTLY DECIDES AN IMPORTANT AND RECURRING ISSUE

A. The *Noerr-Pennington* Doctrine Should Apply To Settlement Discussions Because They Are Necessarily Incident To Litigation

(1) The Law Favors Settlement Of Disputes

This Court and numerous lower courts have recognized that "[s]ettlement of legal disputes is a highly favored course of conduct for which a party should be

rewarded, not penalized." *Veritronics Systems v. Merlin Equipment*, 682 F. Supp. 1203, 1209 (S.D. Fla. 1988). Legislative and judicial policies favoring settlement have been repeatedly affirmed in many contexts for this reason. *See United Steelworkers v. Warrior and Gulf Navigation Co.*, 363 U.S. 574, 582 (1960) (this Court acknowledges the "congressional policy in favor of settlement of disputes by the parties through the machinery of arbitration . . . "); *Eubanks v. Billington*, 110 F.3d 87, 95 (D.C. Cir. 1997) ("in the Title VII context as elsewhere public policy favors settlement of claims . . . "); *Isby v. Bayh*, 75 F.3d 1191, 1196 (7th Cir. 1996) ("Federal courts naturally favor the settlement of class action litigation"); *In re Pacific Enters. Sec. Litig.*, 47 F.3d 373, 378 (9th Cir. 1995) ("we have a 'strong judicial policy that favors settlement' "); *Little Rock School District of Pollasky County Special School District Number 1*, 921 F.2d 1371, 1383 (8th Cir. 1990) ("The law strongly favors settlements"); *Hemstreet v. Spiegel, Inc.*, 851 F.2d 348, 350 (Fed. Cir. 1988) ("the law strongly favors settlement of disputes . . . "); *Edwards v. Born, Inc.*, 792 F.2d 387, 390 (3rd Cir. 1986) ("A strong public policy exists in favor of settlements").

(2) Settlement Discussions Are Necessarily Incident To Litigation

Consistent with this principle, virtually all courts except the Tenth Circuit, including by implication this Court, have recognized that settlement discussions are necessarily incident to and a part of litigation, and thus protected by the *Noerr-Pennington* doctrine and the First Amendment's right to petition. For example, *Columbia*

Pictures v. Professional Real Estate Inv., 944 F.2d 1525, 1528 (9th Cir. 1991), characterized a proposal to enter into a licensing agreement for copyrighted material as an offer of settlement, and held that "a decision to accept or reject an offer of settlement is conduct incidental to the prosecution of the suit and not a separate and distinct activity which might form the basis for antitrust liability." *Id.* This Court's affirmance of the Ninth Circuit's decision noted that the Ninth Circuit "held that Columbia's alleged refusal to grant copyright licenses was not 'separate and distinct' from the prosecution of its infringement suit." Impliedly agreeing with that holding, this Court ruled that it would "not consider whether Columbia could have made a valid claim of immunity for anticompetitive conduct independent of petitioning activity." *Real Estate Investors v. Columbia Pictures*, 508 U.S. 52, 54 n. 2 (1993).

Other courts have recognized that threats of litigation are necessarily incident to litigation and thus protected by the right to petition. As the Fifth and Eleventh Circuits have reasoned:

> "[G]iven that petitioning immunity protects joint litigation, it would be absurd to hold that it does not protect those acts reasonably and normally attendant upon effective litigation. The litigator should not be protected only when he strikes without warning. If litigation is in good faith, a token of that security is a warning that it will be commenced in a possible effort to compromise the dispute."

McGuire Oil Co., supra, 958 F.2d at 1560, quoting *Coastal States Marketing, Inc. v. Hunt*, 694 F.2d 1358, 1367 (5th Cir.

1983). Numerous other courts have so held. *See* Petition, pp. 13-17, and cases cited therein.

(3) Cease-And-Desist Letters Initiate Settlement Discussions

A cease-and-desist letter is the universally accepted and, generally, very successful beginning of settlement discussions. ETW and IMG, between them, sent over 100 cease-and-desist letters per year in the three years before the Tenth Circuit's decision herein to those who they believe infringed their rights. Virtually all of those disputes were resolved without litigation. ETW Corp. and IMG have had to file only three suits to protect intellectual property rights during that same period because of the dialogue begun with cease-and-desist letters,[3] resulting in a settlement success rate of over 99%.

The Tenth Circuit's decision thus chills the most judicially desirable speech imaginable. It establishes liability for engaging in the speech needed to commence settlement discussions that might avoid litigation, in contravention of the compelling public policies that favor settlement of disputes and contrary to the great weight of authority on this issue. Settlement discussions that make litigation unnecessary are, if anything, more deserving of legal protection than litigation itself, as virtually every court to consider the issue except the Tenth Circuit has

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[3] *See ETW Corp. v. Franklin Mint*, Case No. CV-97-4393 (KMW) (C.D. Cal. 1997); *ETW Corp. v. Jireh*, Case No. 1:98 CV 1485 (E.D. Oh. 1998) and *Arnold Palmer et al. v. Gotta Have It Collectibles, supra.*

recognized. The right to petition should and does include the right to engage in communications that will avoid or terminate petitioning activity, and the Tenth Circuit's decision makes an important error when it fails to recognize that principle.

B. The Tenth Circuit's Decision Adversely Affects All Intellectual Property Owners

Intellectual property law requires intellectual property owners to communicate with third parties to create or avoid a loss of rights in various circumstances. For example, the Digital Millennium Copyright Act requires a copyright owner to put an online service provider on written notice that infringing material is being distributed on its website before the service provider can be liable for unauthorized distribution of copyrighted works. *See* 17 U.S.C. § 512(c). This notice takes a statutorily mandated form virtually identical to the cease-and-desist letter ruled upon by the Tenth Circuit, with the copyright owner advising the service provider that a third party is infringing the owner's copyright. *See* 17 U.S.C. § 512(c)(3)(i)-(vi).

Cease-and-desist letters can be important evidence in litigation. Both the Copyright Act and Trademark Act contemplate the potential enhanced statutory damages from willful infringers. *See* 15 U.S.C. § 1117(c) and 17 U.S.C. § 504(c)(2). A cease-and-desist letter places a party on notice of their infringing activity and helps establish the evidentiary predicate to willful infringement before suit is filed. *Nutrivida, Inc. v. Immuno Vital, Inc.*, 46 F. Supp. 2d 1310, 1318 (S.D. Fla. 1998) (continued

infringement after receipt of cease-and-desist letter evidences intentional infringement).

Cease-and-desist letters are necessary to protect trademark rights in various settings. In at least some federal circuits, unauthorized use of a trademark can weaken the protections it affords. *See, e.g., General Mills, Inc. v. Kellogg Co.*, 824 F.2d 622, 626-27 (8th Cir. 1987) ("evidence of third party usage of similar marks on similar goods is admissible and relevant to show that the mark is relatively weak and entitled to a narrow scope of protection"); *Sun Banks of Florida, Inc. v. Sun Federal Savings and Loan Association*, 651 F.2d 311, 316 (5th Cir. 1981) (third party use of mark relevant to show lack of confusion); J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 11:88 (2d Ed. 1999). Some courts have ruled that widespread use of a mark by unauthorized third parties can result in abandonment of rights in that trademark. *See, e.g., UNCAS Manufacturing Co. v. Clark and Coombs Co.*, 309 F.2d 818 (1st Cir. 1962) (failure to take action against infringers probative of abandonment); J. Thomas McCarthy, *McCarthy on Trademarks, supra*, § 17:17. Cease-and-desist letters allow an owner to challenge unauthorized uses, preserve the strength of a mark, and avoid abandonment of rights.

Finally, cease-and-desist letters are needed to cut off equitable defenses. The doctrines of laches, waiver, and estoppel are in certain circumstances available to a party who engages in prolonged, unauthorized use of another's intellectual property rights. *See, e.g., Elvis Presley Enterprises, Inc. v. Capece*, 141 F.3d 188, 205 (5th Cir. 1998); *AIG v. American International Bank*, 926 F.2d 829, 831 (9th Cir. 1991); *Slaverak v. Davis-Cleaner Producer Co.*, 606 F.2d 208,

213 (7th Cir. 1979); *see also, McCarthy on Trademarks, supra,* § 31:1 *et seq.* Such defenses can be cut off by cease-and-desist letters, which unequivocally place an unauthorized user on notice that its conduct is not permitted or approved. *See Elvis Presley Enterprises, Inc., v. Capece, supra,* 141 F.3d at 205 ("any acts after receiving a cease-and-desist letter are at the defendant's own risk because it is on notice of the plaintiff's objection to such acts"); *Citibank, N.A. v. Citibank Group, Inc.,* 724 F.2d 1540, 1546-47 (11th Cir. 1984) (no unreasonable delay where defendant expanded infringing use in the face of plaintiff's complaints).

Thus, the Tenth Circuit's decision not only chills judicially desirable speech that settles disputes, it exposes all intellectual property owners to legal liability for engaging in speech the law requires, even if the legal positions asserted in those communications are objectively reasonable. It forces intellectual property owners to choose either the possible weakening or loss of rights if they fail to engage in required communications with unauthorized users, or a lawsuit if they initiate such communications, with the added expense such a suit entails. Literally every intellectual property owner in the United States who seeks to preserve its rights now faces this dilemma, and will continue to do so until and unless this Court reviews the Tenth Circuit's decision.

C. The Tenth Circuit's Decision Threatens A Dramatic And Unnecessary Increase In Federal Litigation

The Tenth Circuit's decision also threatens to place additional burdens on the federal court system because of the additional suits intellectual property owners may feel compelled to file to avoid the contingent liabilities the Tenth Circuit has created. Intellectual property rights are predominantly federal in nature, and they constitute a significant portion of the federal judiciary's civil docket. In 1998 about 7,700 federal suits were filed alleging infringement of copyrights, trademarks, or patents, out of about 257,000 total civil filings. Leonidas Ralph Meechan, *Judicial Business of the United States Courts-1999 Annual Report of the Director*, Administrative Office of the United States Courts, Tables C-2A and S-7.[4]

An exponentially larger number of disputes did not need to be filed because of the dialogue initiated by cease-and-desist letters. ETW and IMG have over a 99% settlement rate for their cease-and-desist letters as described above. They are only two intellectual property owners. Available data indicates that there are at least hundreds of thousands, if not millions, more. In 1998 alone, the Patent and Trademark Office issued about 106,000 federal trademark registrations and 63,000 patents. *U.S. Patent and Trademark Office, U.S. Patent*

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[4] This report and those tables are viewable online at "www.uscourts.gov/judbus1999/supps.html."

Statistics, Calendar years 1963-99;[5] *Fiscal Year 1998 Patent and Trademark Office Review, Trademark Overview.*[6] The U.S. Copyright Office issued about 557,000 federal copyright registrations. Library of Congress, *Copyright Office Annual Report,* as summarized in U.S. Census Bureau, *Statistical Abstract Of The United States: 1999,* p. 585. Thus, there were about 825,000 intellectual property registrations in that year alone. Comparable numbers of registrations have, of course, issued for decades.

If each registrant described above averaged two registrations per year, there would be about 412,000 intellectual property owners in 1998. If only 2% of those owners sent the same number of cease-and-desist letters that ETW and IMG did that year, 820,000 settlement proposals would have been sent by those owners alone. If those parties settled their disputes without litigation at a rate comparable to these *amici curiae,* less than 1%, or about 8,000 suits, would have been filed.[7]

The Tenth Circuit's decision risks a dramatic increase in federal litigation by requiring intellectual property rights owners to sue first and negotiate later to avoid potential liability. While some intellectual property rights owners will, undoubtedly, elect to assume that risk and send cease-and-desist letters to avoid a suit, even a small

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[5] This document is viewable in pdf format at "http://www.uspto.gov/web/offices/ac/ido/oeip/taf/reports.htm".

[6] This document is viewable in pdf format at "http://www.uspto.gov/web/offices/com/annual/1998/a98r-3.htm".

[7] In fact, about 7,750 intellectual property related suits actually were filed that year. *Judicial Business, supra,* Table C-2A.

increase in litigation could significantly increase the burden placed on federal courts. If only 10% of the disputes these *amici curiae* estimate are now resolved without litigation above were, instead, commenced as civil lawsuits to avoid liability, there would be about 80,000 additional federal intellectual property suits filed every year, a number more than 10 times higher than the total number of copyright, trademark, and patent suits filed in 1998 or 1999, and almost one-third of the total civil filings for both years.[8] *See Judicial Business of The Courts, supra,* Tables C-2A and S-7. This additional legal expense and judicial burden serves no judicial or social purpose, and is present only because of an unnecessarily constricted interpretation of a doctrine that conflicts with what was previously settled law. Review is needed so that the Court can more fully evaluate whether the significant additional liability, expense and burden created by the Tenth Circuit's decision is legally necessary.

CONCLUSION

The petition for certiorari should be granted.

Respectfully submitted,

Dated: August 7, 2000 MANATT, PHELPS & PHILLIPS, LLP

MARK S. LEE
Attorneys for Amici Curiae
ETW Corp. and IMG

[8] If 30% initiated suit before settlement discussion to avoid the liability potentially created by the Tenth Circuit's decision herein, federal court's civil case load would double.